

# **AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA**

**4 FEBRUARY 2009**

**AT 1PM**

**IN COMMITTEE ROOM 3, CIVIC OFFICES**

**Subcommittee:** The Mayor, Mr Bob Parker  
Councillors David Cox (Chairperson), Bob Shearing, Gail Sheriff and Chrissie Williams,  
and Messrs John Hooper and Michael Rondel.

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**1. APOLOGIES**

Apologies have been received from The Mayor, Bob Parker, and Mr Michael Rondel.

**2. CONFIRMATION OF MINUTES OF MEETING – 6 NOVEMBER 2008**

The minutes of the open section of the meeting of 6 November 2008 are **attached**. The public excluded portion of the minutes have been separately circulated to members.

It is recommended that the Subcommittee confirm the minutes of its meeting of 6 November 2008 (both open and public excluded sections).

**3. MATTERS ARISING**

**4. RESOLUTION TO EXCLUDE THE PUBLIC**

Attached.

**CHRISTCHURCH CITY COUNCIL**

**MINUTES OF A MEETING OF THE AUDIT AND RISK MANAGEMENT  
SUBCOMMITTEE**

**Held in Committee Room 3  
on Thursday 6 November 2008 at 2 pm**

**PRESENT:** Councillor David Cox (Chairperson), the Mayor Bob Parker, Councillors Bob Shearing and Gail Sheriff.

**IN ATTENDANCE:** **Christchurch City Council**  
Paul Anderson (General Manager Corporate Services),  
Diane Brandish (Corporate Finance Manager), Fiona Shand (Committee Adviser).

**PriceWaterhouseCoopers**  
Murray Harrington (Partner)

**Audit New Zealand**  
Scott Tobin and Hugh Jory

**APOLOGIES:** Apologies for absence were received and accepted from Councillor Chrissie Williams and Mr John Hooper.

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	<b>ACTION</b>
<p><b>1. RESOLUTION TO EXCLUDE THE PUBLIC</b></p> <p>It was <b>resolved</b> on the motion of the Mayor, seconded by Councillor Shearing that the meeting move into public excluded under section 7(2)(a) and 7(2)(g) to protect the privacy of natural persons and to maintain legal professional privilege.</p> <p>The public were readmitted to the meeting at 2.15 pm.</p>	
<p><b>3. CONFIRMATION OF MINUTES</b></p> <p>On the motion of Councillor Sheriff, seconded by Councillor Shearing, the minutes of the meeting of 22 September 2008 (both open and public excluded sections) were confirmed.</p>	Fiona Shand
<p><b>4. INTERNAL AUDIT ACTIVITY REPORT – AUGUST/OCTOBER 2008 QUARTER ONE</b></p> <p>The Subcommittee considered a report providing an update on the internal audit activities completed by PriceWaterhouseCoopers and internal audit.</p>	

	<b>ACTION</b>
<p>Murray Harrington provided a brief overview of the report, highlighting issues of interest and responded to questions from members, noting timeframes and actions. It was noted that while some action plans may not yet be in place, that in some instances manual fixes have been instituted in the interim.</p>	
<p>Members asked whether the next meeting could include an update on matters in Appendix B, particularly SAP.</p>	Paul Anderson
<p>The Committee <b>resolved</b> to receive the report.</p>	Fiona Shand
<p><b>5. CORPORATE FINANCE REPORT FOR QUARTER ENDED SEPTEMBER 2008</b></p>	
<p>The Subcommittee considered a report with updates on key financial and treasury matters for the quarter ending September 2008.</p>	
<p>Diane Brandish spoke to the report highlighting issues of interest.</p>	
<p>The Subcommittee <b>resolved</b> to receive the report.</p>	Fiona Shand
<p><b>6. NEXT MEETING</b></p>	
<p>The next meeting of the Subcommittee will be Thursday 5 February 2009 at 1.00 pm.</p>	Fiona Shand
<p>On the motion of Councillor Sheriff, seconded by Councillor Shearing, the public were re-admitted to the meeting at 2.15 pm.</p>	
<p>The meeting concluded at 3.10 pm.</p>	

**AUDIT AND RISK MANAGEMENT SUBCOMMITTEE**

**RESOLUTION TO EXCLUDE THE PUBLIC**

*Section 48, Local Government Official Information and Meetings Act 1987.*

I move that the public be excluded from the following parts of the proceedings of this meeting, namely item 5.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution, are as follows:

<b>GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED</b>	<b>REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER</b>	<b>GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF THIS RESOLUTION</b>
<b>5. BRIEFING BY LEGAL SERVICES MANAGER</b>	<b>) GOOD REASON TO ) WITHHOLD EXISTS ) UNDER SECTION 7</b>	<b>SECTION 48(1)(a)</b>

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

**Item 5. MAINTAIN LEGAL PROFESSIONAL PRIVILEGE (Section 7(2)(g))**

**Chairman's**

**Recommendation:** That the foregoing motion be adopted.

**Note**

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

“(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):

- (a) Shall be available to any member of the public who is present; and
- (b) Shall form part of the minutes of the local authority.”

**6. INTERNAL AUDIT ACTIVITY REPORT – NOVEMBER 2008/JANUARY 2009 - QUARTER TWO**

<b>General Manager responsible:</b>	General Manager Corporate Services, DDI 941 8528
<b>Officer responsible:</b>	Senior Auditor
<b>Author:</b>	G Nicholas, Senior Auditor / Murray Harrington , PWC Partner

**PURPOSE OF REPORT**

- The purpose of this report is to provide a brief periodic update on the status of internal audit activities completed by PricewaterhouseCoopers (PwC) and Graeme Nicholas within the Council, and includes:
  - The status of audit projects in the current year’s programme
  - Executive summaries for reports completed during the quarter ending January 2009
  - Issues outstanding from previous quarters.

**EXECUTIVE SUMMARY**

**Programme Status**

- The programme for 2008/09 was approved by the Executive Team in June 2008 and is being progressed.

**Value to the Council**

- The reviews in the 2008/09 Internal Audit Planning process have a focus on:
  - Governance, regulatory and communication processes
  - Fraud prevention and HR
  - Reviews in respect of both major capital and operational spend
  - Improving business process within the Council.

The diverse nature of the scopes covered continues to provide a wide range of assurance across the Council.

- In the current economic environment, we are observing increasing pressures on both organisations and individuals. We continue to be mindful that within each of our reviews a heightened level of awareness from ourselves and management may be required. Wherever possible, we look to assist with the identification of business improvement and efficiency opportunities.

**THE 2008/09 PROGRAMME**

**Internal Audit Review Status**

- Summarised below is the status of each of the internal audit reviews for the 2008/09 year which have been completed:

<b>Completed</b>	Review complete, management comments received and final report issued
<b>Draft Report</b>	The field work has been completed and the draft audit report is awaiting review
<b>In progress</b>	Review underway
<b>Planned</b>	Review planned, high level terms of reference drafted

Review and ref number	Comments	Key Resource	Status	Reporting to Committee status
<b>2007/08 Programme</b>				
Council bylaw making processes (09-03)	Removed from the Audit Programme and reviewed by a multi Unit team	CCC	Complete	To be reported separately to Council
Community Grants (09-08)	Issued report	CCC	Complete	Reported February 2009
HR Practices and processes (09-07)	Issued report	PWC	Complete	Reported February 2009
Biannual Residents survey (09-21)	Issued report	CCC	Complete	Reported February 2009
Remuneration Practices (09-05)	Issued report	PWC	Complete	Reported February 2009
Environmental Enforcement (09-14)	Meeting scheduled with GM	CCC	Draft report	
Consents and Compliance (09-19)	Meeting scheduled with GM	CCC	Draft report	
Capital Endowment Fund (09-09)	Progressing	PWC / CCC	In progress	
Canterbury Development Corporation Relationships (09-26)	Progressing	PWC/ CCC	In progress	
EPA financial practices (09-10)	Progressing	CCC	In progress	
Contract management (09-11)	Progressing	PWC	In progress	
Electronic Transfers (09-17)	Commenced Feb 09	PWC	In progress	
SAP Security (09-18)	Commenced late Jan 09	PWC	In progress	
Procurement Effectiveness (09-16)	Planned for Feb 09	PWC	Planned	
Budgeting and forecasting processes (09-22)	Planned for Feb 09	CCC	Planned	
IT Network security (09-12)	Planned for Feb 09	PWC	Planned	

#### Risk Categories of Issues Reported This Quarter

6. In each review under the co-sourced arrangement, findings are classified according to the ratings outlined below.
7. Given the size of the Council and its relative complexity from an operational perspective, it is expected that a number of issues will be identified during the course of the year where further improvements can be made (both from an internal control and efficiency/effectiveness perspective). The ratings in the table below will be a combination of potential opportunities for improvement identified and control related issues.

8. In PwCs experience, it is normal practice to report summarised outcomes from the reviews in this fashion; with the focus of many Audit Committees turning to the status of key findings where agreed management actions may not have been taken within agreed timeframes. The Subcommittee should note that delays may sometimes occur due to shifting management priorities and/or resourcing issues.

Review	Number of recommendations by risk category				Total Number
	High	Significant	Moderate	Low	
Totals carried forward from last report	26	3	152	117	298
Community grants	0	0	3	2	5
ICT Strategy (Part 1)	3	0	0	0	3
Biannual Residents Survey	0	0	0	0	0
Remuneration practices	0	0	2	1	3
HR Practices and processes	0	0	5	1	6
<b>Total issues to date</b>	<b>29</b>	<b>3</b>	<b>162</b>	<b>121</b>	<b>315</b>
Issues resolved to date	18	0	91	83	192
<b>Issues Outstanding to date</b>	<b>11</b>	<b>3</b>	<b>71</b>	<b>38</b>	<b>123</b>

\* See Appendix B for a description of items rated with a "high" priority

9. The findings relating to our reviews are broadly classified as being High, Significant, Moderate or Low priority.
10. These ratings are defined as follows:
- **High:** Very significant potential exposure or area of critical importance. Urgent management action required.
  - **Significant:** Significant potential exposure or area of importance. Management action required as a priority.
  - **Moderate:** Exposure exists but with some mitigating factors. Management action required within the next six months.
  - **Low:** Low level of potential exposure to the organisation. Action required is only of a low priority or housekeeping nature.

#### New Issues Reported

11. **Attached** as Appendix A are the executive summaries of the reports prepared this quarter.
12. A detailed report for each review completed has been provided to management which sets out agreed management action plans as approved by the review sponsor.

#### Outstanding Issues Reported

13. A database of audit issues is maintained. These are reported to General Managers for regular follow up.



## Appendix A – Executive Summaries of Internal Audit Reports Issued between November 2008 and January 2009

### Community Grants (09-08)

#### Objectives and scope

The objective of this review was to provide assurance that Council processes for the Grant funding of community activities complies with good practice

The scope of this review included Metropolitan and Community Board based funding. It examined the current processes to ensure that:

- The community is provided with equitable access to funding
- Funding is allocated fairly and transparently
- Outcomes required are defined and are consistent with Council policy
- Recipients are held accountable for funds provided.

The processes were assessed against the OAG document “Public sector purchases, grants and gifts: Managing funding arrangements with external parties” – June 2008

#### Summary of Findings

The Community Grants funding schemes were reviewed in 2007 as part of the development of the Strengthening Communities Strategy. The Council launched four new schemes for the 2008/9 year to distribute \$8.312m in funding. 949 applications were received.

The funds examined were:

- Strengthening Communities Fund
- Small Projects Fund
- Discretionary Response Fund
- Community Loans Scheme

The new funding process has addressed almost all of the issues raised in the 2005 funding review. The process is now more consistent across the Council with good controls in place to ensure that a City wide view is taken and aspects such as project risk are considered.

Improvements include:

- New standard processes have been implemented for the 2008/9 year with defined delegations and standard templates in place.
- Council Relationship Managers have been established with the larger recipient organisations to promote the achievement of the intended results e.g. Anglican Care.
- Recipients are required to sign a funding agreement and will be subject to 6-monthly accountability reporting. The structure of this is still being implemented.

The Grants area had several performance indicators for which it was difficult to verify the results. The Unit is moving to two measures for the coming year:

- The number of volunteer hours leveraged off the Grants
- That all Grant monies have been distributed
- These are more measurable and indicate the extent to which the Council is assisting the volunteer sector. However it is noted that the current database does not allow the capturing and reporting of volunteer hours as required.

The following table details the agreed actions and timeframes relating to our key findings. Three moderate priority issues were raised.

Agreed Action	GM Responsibility	Target Delivery Date
<p><b>Finding: Funding database :</b></p> <ul style="list-style-type: none"> <li>• The current database format has not been maintained and no longer produces output to match the new Grants assessment process. This results in much reformatting and editing of data.</li> <li>• Discretionary Grants for Boards have not been included increasing the risk that a less than full understanding of the funding for particular organisations may result.</li> <li>• The database accountability records show at least 35 Grants that are recorded as having their accountability documents 7 months overdue.</li> </ul> <p><b>Agreed Action:</b></p> <ul style="list-style-type: none"> <li>• A new database system is currently in the design stage.</li> <li>• Discretionary Grants are now being included into the database and accountability will be tracked.</li> </ul>	M Aitken	March 2009
<p><b>Finding: Funding approach:</b> Organisations apply to the Council with requests for funding which are then assessed against quite broad criteria. In order to maintain an appropriate level of transparency, there may be an advantage in the Council establishing key priority areas that the Council is intending to target during the funding round.</p> <p><b>Agreed Action:</b> This is being considered as part of a possible approach involving ring fencing a certain amount of funds to meet special identified needs. Further work is required on the concept and no such need has been identified to date.</p>	M Aitken	To be developed as the need arises.
<p><b>Finding: loans:</b></p> <ul style="list-style-type: none"> <li>• The current interest rate of 2% charged means that the fund's purchasing power is not sustainable. This should be aligned at least to the rate of inflation and revised periodically.</li> <li>• Loans over a certain amount should be secured by mortgage so that the Council is not disadvantaged against any subsequent secured creditors of organisations.</li> </ul> <p><b>Agreed Action:</b> A report is scheduled for Council next month on community loans. These areas will be put forward as recommendations</p>	M Aitken	Complete

## HR Practices & Processes (09-07)

### Objectives and Scope

The objective of this review was to review the robustness of the following processes:

- Hiring new employees;
- New joiners and induction processes; and,
- Leavers and exit processes.

The scope of this review was as follows:

Hiring new employees:

- Compliance with procurement policy for the procurement of services from third parties, including Preferred Supplier Agreements;
- The appropriateness of relationships held by the Council with external recruitment agencies or other service providers;
- The appropriateness of rates paid by the Council to third party recruitment agencies or other service providers;
- Financial accountability for recruitment activities, including delegated financial authorities and processes for ensuring value for money.

New joiners and induction process:

- That induction policy and processes meet required standards, as defined by the Council policy and our expectations of good practice;
- Compliance with induction processes.

Leavers / exit processes:

- That exit policy and processes meet required standards, as defined by the Council policy and our expectations of good practice;
- Compliance with exit policy and processes for staff that leave the Council.

### Summary of Findings

The following table details the agreed actions and timeframes relating to our key findings:

Agreed Action	GM Responsible	Target Delivery Date
<p><b>Finding:</b> Lack of effective recruitment planning communication between Business Units and HR</p> <p><b>Agreed Action:</b> Judy McGrody will work with the HR Managers to establish annual recruitment plans for each business unit.</p>	Chris Till	31 January 2009
<p><b>Finding:</b> Some recruitment spend is processed without purchase orders, contrary to Council Policy</p> <p><b>Agreed Action:</b> Judy McGrody will identify a process to address this issue.</p>	Chris Till	28 February 2009
<p><b>Finding:</b> Anecdotal evidence of links between Business Units and Recruitment Suppliers</p> <p><b>Agreed Action:</b> Judy McGrody will manage this as part of the recruitment preferred supplier contract management process. Any issues identified will be addressed by Judy and the appropriate HR Manager.</p>	Chris Till	At each monthly contract management meeting
<p><b>Finding:</b> No regular feedback loop on the recruitment process</p> <p><b>Agreed Action:</b> Judy McGrody to investigate options for collecting candidate and hiring manager feedback on the recruitment process and then present recommendations to the HR Manager Shared Services and GM HR for their</p>	Chris Till	31 March 2009

consideration.		
<p><b>Finding:</b> The Exit Interview process does not meet our expectations of good practice</p> <p><b>Agreed Action:</b> A university student has been engaged to review the Exit interview process and make recommendations for improvement to the HR Manager Shared Services and GMHR for their consideration.</p>	Chris Till	31 January 2009
<p><b>Finding:</b> The return of Council assets is not managed centrally</p> <p><b>Agreed Action:</b> This will be reviewed as part of the Exit Interview project.</p>	Chris Till	31 January 2009

***Lack of effective recruitment planning communication between Business Units and HR***

With the exception of the Capital Programmes Group, Business Units do not produce recruitment plans. This lack of planning means that the Council's recruitment can be ad-hoc and reactive, and efficiencies may be missed.

Future staffing requirements should be regularly updated as part of ongoing business planning, and HR managers within the Business Units should be involved in this process to ensure that recruitment is adequately planned and managed. All Business Units should produce Workforce Plans, which should be formed in conjunction with their HR Manager.

***Some recruitment spend is processed without purchase orders, contrary to Council Policy***

95% of transactions with Sheffield Consulting and 93% of transactions with Hadlee Kippenberger were processed without Purchase Orders. Transactions for temporary staff and less strategic positions were typically processed with a purchase order.

It appears that there is confusion between the Business Units and HR as to who is responsible for raising the Purchase Order when recruiting for more strategic positions.

The Council should agree where the responsibility lies for purchase orders relating to recruitment, and update their processes and policies to ensure that this is adhered to.

***Anecdotal evidence of links between Business Units and Recruitment Suppliers***

We were made aware of anecdotal evidence of links between Business Units and recruitment suppliers, in which formal Council processes are bypassed and Business Units go direct to a supplier without first consulting HR.

The risks associated with this are the development of conflicting relationships; the compromising of the Council's purchasing power; and, the risks to maintaining accurate records of recruitment activity.

We note that controls are in place to mitigate this risk (for example: the suppliers have been notified to contact the HR team direct, if they believe the HR team are not aware of the recruitment request; and, the HR team must eventually be notified of all recruitment – in order to process a new joiner. We also note that the evidence of this was anecdotal only.

Where this issue occurs, the staff member concerned should be reminded of their responsibility to follow correct processes, and it should be flagged to the individual's line manager.

***No regular feedback loop on the recruitment process***

It is good practice to obtain feedback from new hires and their managers on the recruitment process, to help improve the hiring and induction processes.

Although feedback is sought on the induction training courses, through the use of course evaluation forms completed by all participants, feedback on the recruitment process is not routinely sought. Therefore there is a missed opportunity to identify areas for improvement or issues in a timely fashion.

The HR team may wish to consider seeking more regular feedback from both new hires and their line managers, to understand their experiences of the recruitment process and to identify any strengths or areas for development.

***The Exit Interview process does not meet our expectations of good practice***

The standard letter issued to leavers includes a statement that the line manager will arrange an exit interview with the individual. Whether or not this occurs is not monitored. In addition, it is not good practice to use the individual's line manager to conduct the interview (since it may impact on the openness and honesty of the interview).

Data collected on an individual's exit can provide extremely useful knowledge for an organisation. Given that exit interviews can be time-consuming and require a skilled interviewer, an alternative is to develop the "Why did you leave us?" questionnaire into a more detailed exit questionnaire. The completion of this form is not currently mandatory, nor is it monitored – although completion rates are thought to be very low.

Therefore, in order to ensure good volumes of completed questionnaires (to maximise data integrity), incentivisation - such as not processing final salary until the questionnaire is received by HR – may be required.

***The return of Council assets is not managed centrally***

In October 2007, the process of managing the return of Council assets from employees was assessed as part of a "Recruitment and Exit Processes Review". This review noted that there is no accurate record (in either SAP or Infra (IM&CT)) of the Council assets held by individuals.

Therefore when an individual leaves the Council, reliance is placed on the Team Leader to identify all items to be returned and to ensure that items are returned. The Exit Checklist is a reminder to the Team Leader to do this.

The review noted that the Exit Checklist is comprehensive and provides a good guide and some degree of assurance that Team Leaders complete the necessary tasks (including the return of Council assets). However, if these forms are not returned to HR, there is limited assurance that the tasks have been completed. In this review, we confirmed with HR staff that completed Exit Checklists are rarely returned to HR, and that this process is not mandatory.

We note that, in addition to the loss of material assets, if assets such as memory sticks are not returned then the Council is at risk of intellectual property theft.

The checklist should be expanded to include a section with individual Council assets listed relevant to the role. Both the Team Leader and the exiting employee would be required to sign the form, to acknowledge that the employee had been questioned about each individual item – even though the individual might not have all the items. The completion of the Exit Checklist should become a mandatory process, and all forms should be returned to HR.

As with the recommendation for 2.5, the completion of this process may require an incentive. For example, the processing of the final salary payment cannot be completed until the signed Exit Checklist has been received by HR.

## Remuneration Practices (09-05)

### Objectives and scope

- Review key aspects of the Council process for setting remuneration levels; and,
- Review the robustness of internal compensation systems currently utilised, including alignment with PR&Ds.

### Summary of Findings

The following table details the agreed actions and timeframes relating to our key findings:

Agreed Action	GM Responsibility	Target Delivery Date
<p><b>Finding:</b> The Council relies on unprotected excel spreadsheets to maintain sensitive information</p> <p><b>Agreed Action:</b> Investigate system options and recommend appropriate system for adoption</p>	Chris Till	March 2009
<p><b>Finding:</b> Alignment between remuneration systems and PR&amp;Ds</p> <p><b>Agreed Action:</b> Continue to enforce timely completion and standardise due dates</p>	Chris Till	Ongoing
<p><b>Finding:</b> Current methods of calculating total remuneration exclude certain costs</p> <p>(Low Risk Rating)</p> <p><b>Agreed Action:</b> Noted – no action required – low risk</p>	Chris Till	No Action

Overall we identified three key findings: two of which are rated medium and one is rated low, as per the agreed risk ratings.

The medium findings are outlined as follows:

#### ***The Council relies on unprotected excel spreadsheets to maintain sensitive information***

The Council uses excel spreadsheets for the following:

- To record the results of Job Evaluations (“JEs”); and,
- As an extract file from the performance management system (“PR&D”), which is then uploaded into the Remuneration Decision Assistant system (“RDA”).

These spreadsheets are not password protected (to prevent unauthorised amendments), and excel cannot maintain a history of changes made (and by whom) to the spreadsheet. Although only the HR Analyst and HR Reporting and Information Advisor have access to the download from PR&D, the entire HR team has access to the spreadsheets containing the results of the JEs.

If an unauthorised change was made to either spreadsheet, the Council would be reliant on a member of the JE committee spotting the change based on their personal records of the results of the JE or a Team Leader noticing a change to the PR&D data.

There is a risk that unauthorised changes may be made and not spotted, and that this may influence the remuneration of Council staff.

The Council should progress the development of the Pivot database to store the results of Job Evaluations (currently work in progress). The Council may also wish to investigate the potential of providing an automated link between the PR&D and RDA systems.

### ***Alignment between remuneration systems and PR&Ds***

The majority of staff do not adhere to the prescribed timeframes for completing performance reviews (available data for 2007/08 showed 44% of IEA PR&D data completed by the due date, and 15% for Salaried Staff Collective Agreement).

This either impinges on management's ability to complete remuneration reviews (since the required performance information is not available at the correct time, causing delays) or suggests that performance information is not formally factored in to the remuneration review process.

The Council is aware of this issue, and should continue in its efforts to enforce the timely completion of performance reviews for all staff. This could be supported in the following ways:

- Production of a weekly report identifying staff that are yet to complete performance reviews in the four weeks running up to the due date. This report to be circulated to management, and managers to be held accountable for their team's completion statistics.
- A business rule to be added to RDA, such that without a completed performance review, any salary or bonus payments limited to x%, given that completion of a performance review is a mandatory process.
- Standardising, where possible, the due dates for completion of performance reviews – such that it becomes a standard procedure at a given time of year.

## ICT Strategy Review – Part 1 (08-22)

### Objectives and scope

The objective of this review was to assess the effectiveness of processes to develop the overall ICT Strategy.

The scope of the review included an assessment of the following:

- The processes utilised to develop, communicate and formalise the ICT strategy
- The level of buy-in, engagement and feedback from stakeholders during the process to develop the ICT strategy
- The alignment of the ICT strategy to the Council's business plans and objectives.

### Summary of Findings

In the course of planning for our review, we understood that the following two steps would be visible:

- Development of an ICT Strategy. This would be a vision, or direction, towards which ICT wishes to aim. This would be the subject of this particular review (Part 1)
- Development of a Strategic Plan. This would effectively act as a roadmap and assist ICT in defining the activities that will support where ICT wish to head. This would be the subject of the proposed follow-on review (Part 2).

However, we found that there is no standalone ICT Strategy documented and therefore clearly visible. Rather, the ICT Strategy is embedded within the ICT Strategic Plan as a set of five Strategic Principles:

- Customer-driven
- Accessible Council
- Performance excellence
- Definitive Information
- One-Organisation approach

The Strategic Plan, and associated Strategic Principles, took two years to develop, and was last modified in December 2006. Whilst there are plans to refresh this at some point, there is currently no process in place to perform a re-assessment of the Strategic Principles and to ratify the changes.

Not all key stakeholders were involved in development of the ICT Strategy, nor is there any evidence that it has been clearly communicated to them. A range of people from within the Council were involved in development of the ICT Strategy, the majority of who have since left the organisation. Although the GM Corporate Services and a Business Representative from Customer Services were involved at the time, the development of the IT Strategy was largely ICT-driven. Key Stakeholders are identified within the Strategic Plan and include external business partners, customers and elected members, none of whom were involved in its development. Communication of the ICT Strategy is by internal publication of the ICT Strategic Plan on the Council Intranet, also by-passing a number of key stakeholders.

As detailed within the management response, although Management agree with the content of the report, they believe that there are a number of mitigating factors that would make them comfortable with a six-month completion timescale. The following table details the agreed actions and timeframes relating to our key findings:

Agreed Action	GM Responsibility	Target Delivery Date
<p><b>Finding:</b> Processes to develop and communicate the ICT Strategy did not incorporate consideration of all key stakeholders.</p> <p><b>Agreed Action:</b> IM &amp; CT will undertake an exercise to review the ICT Strategy in conjunction with current key stakeholders. Such an exercise will then be performed at an agreed frequency.</p> <p>Following review, the confirmed ICT Strategy will be clearly communicated to all key stakeholders.</p>	Paul Anderson	May 2009



<p><b>Finding:</b> The majority of those involved in the development of the ICT Strategy have since moved on and their thoughts may no longer capture the thinking of current incumbents.</p> <p><b>Agreed Action:</b> We recommend in 2.1 above that key stakeholders are involved in a review of the ICT Strategy. As a result we have no further recommendation to make.</p>	Paul Anderson	May 2009
<p><b>Finding:</b> In the absence of clearly articulated Council business objectives, the ICT Strategy aligns to a modified list of IM&amp;CT developed projects ('ICT Initiatives') which may not fully capture the current business needs and desires.</p> <p><b>Agreed Action:</b> IM &amp; CT engage with key stakeholders when refreshing the ICT Strategy and ensure that it is closely aligned to Business Objectives. We suggest IM &amp; CT should raise a series of key as-is and to-be strategic questions internally and with key stakeholders when refreshing and revalidating the ICT Strategy, to ensure alignment with business plans and objectives.</p> <p><b>Management comment:</b> A new prioritisation process for ICT projects has been developed. With prioritisation, LTCCP and PoaPs in all groups and units, and use of IM&amp;CT relationship managers, we are developing a process that ensures IM&amp;CT activity/projects align closely with the Council's business objectives.</p>	Paul Anderson	May 2009

**Management comment:**

The current ICT strategic plan was signed off in December 2006, and the strategic plan was reviewed and approved again in December 2007.

While the process used to develop the strategic plan was less than ideal, I don't believe the state of the current document represents 'significant potential exposure', as there are currently a number of mitigating activities underway. For example Plan on a Page business plans, development of an enterprise architecture, LTCCP planning and prioritisation.

It is agreed that a review of the strategy is required, and this will be planned in the next 6 months.

## Biannual Residents Survey (09-21)

### Objectives and scope

The objective of this review was to ascertain the effectiveness with which the results from Biannual Resident Surveys are applied to drive business improvement.

The scope of the review included:

- Survey results from 2007 and 2008 in the new format
- Application of survey results in the 2008 Performance report
- The 2008 Activity Management Plans

### Summary of Findings

The Biannual survey has been run in the existing format four times over the past two years. The survey focuses on key services delivered directly by the Council and asks questions generally to gauge the level of resident participation or satisfaction with the particular services. The survey is via telephone and has been designed and is operated by a professional survey company.

A review of the results showed a remarkable consistency between surveys which suggests the samples are reasonably representative of the public perception. The new survey format asks respondents questions in a consistent format about a range of Council services corresponding to the Activities as set in the Annual Plan / LTCCP. It also records comments made by respondents regarding the various services.

Overall managers have not yet applied the Biannual Survey to drive specific business initiatives. The survey in this format has not operated long enough to indicate trends and the broad nature of the questions do not provide detailed information on which to base specific improvement initiatives.

The main application of the results to date has been focused on setting Horizon indicators around satisfaction with service levels. The survey is operated corporately and hence is well suited as an independent performance assessment tool. Units tend to rely on their own more detailed point of service surveys to provide information to drive operational changes.

Some questions are designed to gauge public awareness of Council support for, or services available in the city. No specific initiatives have been taken by the Units to date to improve public awareness of the areas surveyed.

Some services are likely to have a lower levels of satisfaction because of their nature (enforcement and consenting activities) or are very subjective (e.g. satisfaction with the look and feel of the central city). The trends over time rather than the absolute results are likely to be more important here.

Generally the survey provides a high level indicator of community perceptions regarding Council delivered services.

**Appendix B – Status of Previous audit findings February 2009**

**List of “High “priority items outstanding or resolved in the previous quarter:**

<b>Topic</b>	<b>Issue</b>	<b>Action proposed</b>	<b>Issue first raised</b>	<b>Target completion date</b>
Procurement	A lack of segregation of duties by purchasers	The following actions have been taken: P-cards have been rolled out extensively - these provide greater transparency and one up approval for less than \$1000 purchases; new business rules governing processes for purchasing have been distributed; and the accounts payable and purchasing functions have been separated to ensure segregation.	June 2006	Complete but subject to a further audit February 2009
Procurement	Many recommendations from the SAP user review still not implemented	Non-compliance issues have been actively addressed by the Purchasing Team and are monitored on an ongoing basis. Training and forums have been put in place. SAP functionality will not be further addressed at this stage.	June 2006	Complete but subject to a further audit February 2009
Procurement	Use of the SAP purchasing module is open to too many people who lack competence in its operation	The Procurement and Purchasing Team as a shared service are accountable for supporting the business in procurement and purchasing practices. With the revised business rules just sent out and the procurement policy in draft the key actions required to address this have been taken	June 2006	Complete but subject to a further audit February 2009
Procurement	User guidelines often ignored, controls over-ridden	The Procurement and Purchasing Team as a shared service are accountable for supporting the business in procurement and purchasing practices. With the revised business rules just sent out and the procurement policy in draft the key actions required to address this have been taken	June 2006	Complete but subject to a further audit February 2009

Topic	Issue	Action proposed	Issue first raised	Target completion date
Fraud Prevention	Wide access across the Council to resident information through GEMS data warehouse.	Will be addressed as part of GEMS replacement (LASER)	December 2006	September 2008  Amended to June 09
Electronic Transfers	<i>Vendor changes:</i> Check the changes to bank accounts from the SAP report to the external documentation from the suppliers. The report should be run after vendor master details have been changed and reviewed by the Payables Team leader or another officer that does not have access to process vendor bank account changes.	Implemented changes made to the SAP report	September 2007	Complete but subject to a further audit February 2009
Consultants	<i>Insurance policy:</i> Revise the policy regarding insurance cover and contract indemnity. Set up a guideline as to the level of insurance cover required for different risk assignments, The Risk Subcommittee would still consider cases that fall outside the guidelines;  Accept the standard APENZ terms and conditions for a wider range of assignments by non-APENZ members.	A better process has been established to capture and record decisions of the Risk Subcommittee.  The APENZ standard agreement is now used for registered suppliers.	September 2007	Complete but subject to a further audit February 2009
Consultants	<i>Appointing consultants information:</i> Update the intranet pages with a clear process that staff should follow when engaging consultants. This should include not only how to complete the online form but also about use of standard agreements and purchase orders. The existence and purpose of the Risk and Insurance Sub Committee also needs to be re-communicated to staff.	The documentation around the engaging of consultants appearing on the Intranet has been updated in the manner recommended	September 2007	Complete but subject to a further audit February 2009
Civil Defence	<i>Volunteer recruitment:</i> In the event of a real emergency there may be an unexpectedly low level of volunteer response. Those that do report may have not participated in exercises for some time and may add to the level of confusion and disrupt operations. The absence of any recruitment requirement on	Definitions of “active volunteers” have been set and targets for the training of team leaders in the required qualification set down in the 2009 / 2019 LTCCP	June 2008	Complete

Topic	Issue	Action proposed	Issue first raised	Target completion date
	Volunteer Co-ordinators and the lack of clarity of 'active' participants may also result in a lost opportunity to identify potential resource shortfalls and to implement associated localised recruitment campaigns.			
Civil Defence	<i>EOC Delegations:</i> The delegations register does not currently delegate the Controllers powers to others in the EOC in the event of an emergency. In an emergency the EOC may assume powers that have not been delegated to them, or may delay implementing actions pending authorisation of a Controller.	The issue of delegation of authority is a matter for which the CDEM Manager will refer to Council's Legal Services Unit for advice. Following receipt of such advice the Council's Register of Delegations will be updated, if necessary	June 2008	December 2008  Amended to March 2009
Civil Defence	<i>Storage of Equipment:</i> Critical equipment for the three CDEM emergency response teams is currently stored at an insufficiently protected single location.	A site has been located and should be confirmed by the end of Feb 09	June 2008	July 2008  Amended to February 2009
IT Security	Whilst there are a number of security-related activities performed within IM&CT, there is no process to confirm their continued operation and to assess where gaps in those activities exist.	Management should appoint an Information Security Officer. This role to act as the information security champion within IM&CT. To holistically view the various disparate security activities performed within IM&CT, develop a review process and to establish an incident management and reporting process.  February 2009: One of our IT architects will perform a high-level review incorporating a risk assessment of our current security practices and a programme of work that introduces processes to ensure security is robust. This programme of work would be incorporated into our 09/10 business plan .	June 2008	June 2010
Key Accounting Controls	<i>Income deferred accounts are poorly documented.</i> The accounts relating to deferred income within the Regulation and Democracy Group are	The Accounting Operations team will document the rationale and process for reconciling these	June 2008	September 2008  Amended to

Topic	Issue	Action proposed	Issue first raised	Target completion date
	reconciled but the rationale behind some calculations is poorly understood. This has resulted in incorrect recognition of income. The rationale behind the deferral needs to be documented and reviewed at least quarterly by the Finance Manager for the Group.	accounts. The team will work more closely with the RDS Finance Manager to ensure that balances are reasonable.		March 2009
Maintenance Contracts	<i>Inconsistent enforcement and monitoring of contract performance standards:</i> The H/vac, Fire Prevention and Doors contract, Street Lighting and Water Supply and Reticulation contracts examined incorporated various performance standards, often with associated penalties or bonuses. Only some of these standards had evidence of being monitored or of being applied in calculating the payments to the contractor. The reasons ranged from an inability to capture the metrics to contract managers deciding not to enforce them. Customer Service Requests outstanding further suggested that some contracts lacked monitoring and verification of the work claimed. Additional fore thought is needed as to the appropriate performance provisions included in contracts and when they are, there needs to be a consistent monitoring and application of the contract terms.	A new monitoring regime has been put in place for Spotless Limited.  The Contractor Manager will enforce the performance aspects of the water and waste contract where practical.  The recruitment of replacement staff in the roading area enables this to be monitored as expected.	June 2008	Complete  This aspect is subject to a further audit in February 2009
Maintenance Contracts	<i>A lack of formalised contracts:</i> Although the contracts between the Council and City Care Ltd appear to operate well, the lack of a formal signed contract is not good practice.	A Steering Committee to supervise the re-negotiation process has been set up and negotiations are about to commence.	June 2008	July 2010
Cash handling	Waivering fees: Staff suggested that they are often pressured by operators to waive the standard Council fees for the use of space for commercial promotions, operators often enlisting Elected Members to promote their case. There is no set process for handling these types of requests. The most recent case involved pressure to waive \$26,000 of potential fees	A delegations policy is to be developed for waivering of Council charges.	September 2008	March 2009
NZTA	<i>Clarify the responsibility and update the documentation for</i>	The formalising and documentation of the	October	March 2009

Topic	Issue	Action proposed	Issue first raised	Target completion date
Funding	<i>internal processes.</i> The funding of transport process is across various Units such as Transport and Green Space Unit, Community Support Unit, Network Planning Unit and Capital Projects Unit. There is a lack of clarity as to the requirements of the funding processes and the responsibilities for various aspects of them.	required processes is being given priority. External assistance has been contracted to facilitate this. This will also include consideration of this activity being separated out as a shared service model.	2008	
ICT Strategy	Processes to develop and communicate the ICT Strategy did not incorporate consideration of all key stakeholders.	IM & CT will undertake an exercise to review the ICT Strategy in conjunction with current key stakeholders. Such an exercise will then be performed at an agreed frequency. Following review, the confirmed ICT Strategy will be clearly communicated to all key stakeholders.	December 2008	May 2009
ICT Strategy	The majority of those involved in the development of the ICT Strategy have since moved on and their thoughts may no longer capture the thinking of current incumbents.	It is recommended that key stakeholders are involved in a review of the ICT Strategy.	December 2008	May 2009
ICT Strategy	In the absence of clearly articulated council business objectives, the ICT Strategy aligns to a modified list of IM&CT developed projects ('ICT Initiatives') which may not fully capture the current business needs and desires.	IM & CT will engage with key stakeholders when refreshing the ICT Strategy and ensure that it is closely aligned to Business Objectives. We suggest IM & CT should raise a series of key as-is and to-be strategic questions internally and with key stakeholders when refreshing and revalidating the ICT Strategy, to ensure alignment with business plans and objectives.  February 2009: A new prioritisation process for ICT projects has been developed. With prioritisation, LTCCP and PoaPs in all groups and units, and use of IM&CT relationship managers, we are developing a process that ensures IM&CT activity/projects align closely with the Council's business objectives.	December 2008	May 2009

## 7. CORPORATE FINANCE REPORT FOR QUARTER ENDED DECEMBER 2008

<b>General Manager responsible:</b>	General Manager Corporate Services, DDI 941-8528
<b>Officer responsible:</b>	Corporate Finance Manager
<b>Author:</b>	Diane Brandish

### PURPOSE OF REPORT

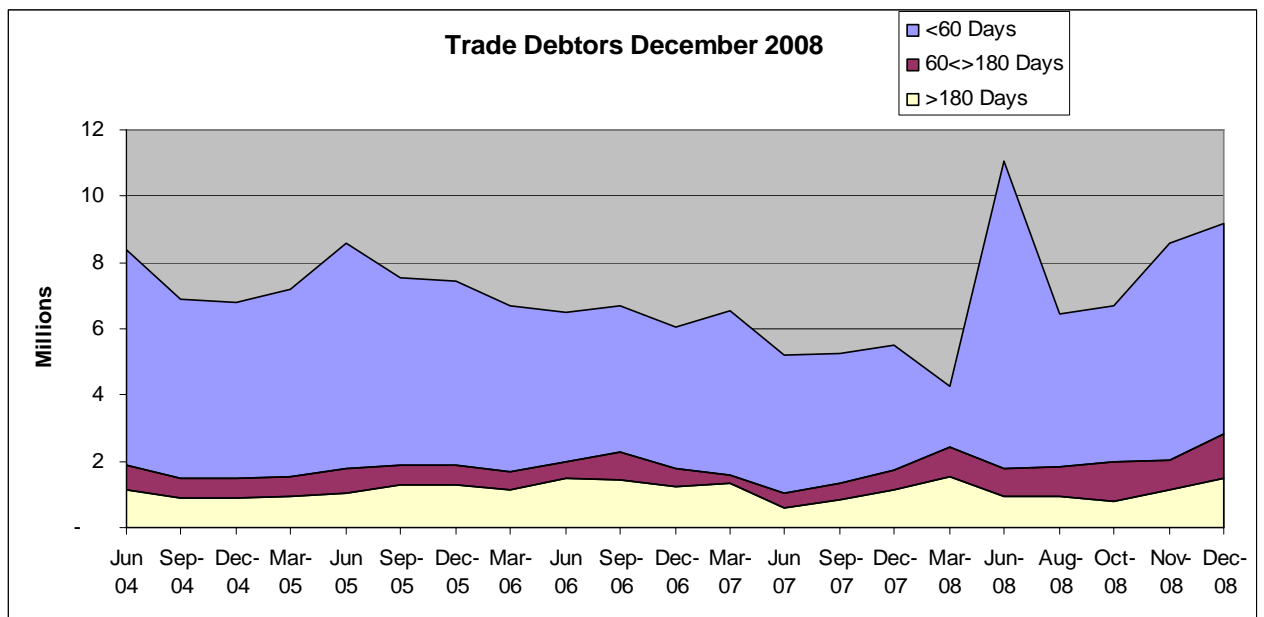
1. The purpose of this report is to provide the Audit and Risk Management Subcommittee with an update on key financial and treasury matters for the quarter ending December 2008.

### TREASURY

2. Treasury; the table **attached** as Appendix 1 shows that the Council remained well within its financial ratio policy limits. Council funding requirements remain below the levels predicted in the 2008/09 Annual Plan due to delays in delivering the capital programme. The liquidity ratio stands at 6 percent against a plan ratio of 3 percent. This is the result of a decision to fund our borrowing through 90 day debt while interest rates continue to fall. Once the interest rate yield curve starts to increase for mid to long term debt we will lock in a fixed rate for a 3 – 5 year term. As an indication, the margin on 3 – 5 year debt is between 120 and 200 basis points, i.e. between 1.2 percent and 2 percent above the swap rate, giving a long term rate of 6 percent as against 4.5 percent for a 90 day term. In the event that any borrowing could not be renewed the loan would be repaid by realising part of the investment portfolio. The new hedging contracts are to lock in firm rates for Civic Building Ltd and have been taken at the request of their board.

### DEBTORS

3. The balance of overdue accounts (60 days and over) has increased by \$840,000 since October. Of this, \$155,000 is for building consents, \$312,000 for Resource Consents and \$327,000 SAP debtors. However, because of the process that is followed, only \$20,000 of building consents and \$165,000 of resource consents are overdue. The remaining balance of each is made up of non-processing fees which are not immediately payable. This process is being reviewed with the manager to see how it might be amended to better reflect the actual debt owing. Additional staff have been recruited into the Transactions area to address the problem with overdue accounts.





#### **AUDIT AND RISK ISSUES**

4. Audit New Zealand's Management Report for the year ended 30 June 2008 is **attached** as Appendix 2. As anticipated the report identifies several areas for improvement within non-financial reporting, the annual report process, along with internal control and financial accounting issues. In most cases new processes have already been introduced to address the issues. A small number of improvements have been deferred until the following financial year due to other priorities.

#### **FINANCIAL AND LEGAL CONSIDERATIONS**

5. There are no financial or legal implications.

#### **STAFF RECOMMENDATIONS**

It is recommended that the report be received.

## Christchurch City Council Treasury Management Report for 2008-09 - Period to 31 December 2008

Key Performance Measures				
	Policy Limits	Annual Plan Target	Actual 2008/09 Performance	Target
<i>Long Term Financial Strategy Objectives</i>				
◆ Term debt as a percentage of total assets	12%	3.80%	2.50%	Achieved
◆ Term debt as a percentage of realisable assets	33%	9.50%	5.49%	Achieved
◆ Net interest as a percentage of operating revenue	8%	-1.10%	-2.75%	Achieved
◆ Net debt in relation to funds flow	5 times	2.8 times	Expected to be achieved	
<i>Liquidity risk management objectives</i>				
<u>Maintain adequate liquidity</u>				
◆ No more than 35% of relevant debt matures within 12 months unless the total debt is less than \$30M 2007/2008 year	< 35%	3%	6%	Achieved
◆ Council shall maintain sufficient approved financing facilities to cover at least 120% of 12 months net debt requirements.		Cash advance facility with CCHL provides adequate cover. Separate additional Council facility arranged.		
<u>Provide for debt repayment</u>				
◆ Provision for debt to be repaid by contribution to debt repayment reserves - not less than 1.4% per annum.	>= 1.4% pa	1.4%	1.4%	Achieved
<i>Credit risk management.</i>				
◆ Counterparties on new loans credit rated A- or better.	A- or better		requirements	
◆ New loans settled in cleared funds.			borrowed from CCHL & CCC	
			issuances into market	
<i>Interest rate risk management</i>				
◆ Proportion of fixed rate debt to total debt	target 75% range 50% - 100%		88% Achieved	Achieved
<i>Interest rate hedging</i>				
◆ New hedging contracts.	Last Qtr	Nil	5	CBL Fwd start
◆ Existing hedging contracts	Total contracts	Nil	4	CCC

Management report on the audit of  
**Christchurch City Council**  
for the year ended 30 June 2008

**Audit New Zealand has performed this audit on behalf of the Controller and Auditor-General.**

**We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.**

**Our audit has been carried out in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that is not material in terms of your financial statements.**

**The implementation and maintenance of your systems of controls for the detection of these matters remains the responsibility of the Chief Executive and management.**

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## **Executive summary**

for the financial audit for the year ended 30 June 2008

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### **Audit opinion**

An unqualified audit opinion was issued on Christchurch City Council and Group's financial statements.

### **Compliance with legislation**

There were no breaches of significant legislation.

### **Issues for your attention**

- Ellerslie International Flower Show – the purchase of this event was disclosed in the financial statements by Council in a way that did not meet the requirements of NZ IFRS but was not considered material to the financial statements as a whole.
- New Council Civic Offices – we have summarised our interim findings from our review of the structure, governance and management of risks in relation to this project and advise that early in the development, sound project management processes are being adopted.
- Annual Report Process – Council significantly enhanced its processes to improve the annual report preparation timetable in 2008, however there were a number of issues that impacted on Council achieving this.
- Non-financial performance reporting – in the Annual Report we found a number of instances where the performance reported was incomplete or inaccurate highlighting concerns over the information on which Council is assessing and monitoring non-financial performance.

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### **Internal control issues**

- Sensitive expenditure policies - we identified four types of sensitive expenditure within the OAG's best practice guide which Council's policies do not cover.
- There remain opportunities to enhance controls over P-card transactions, approval and payment of invoices and the payroll masterfile. Individually these weaknesses increase the risk that fraud or error can occur and go undetected.
- Metrics and monitoring of Information Technology (IT) service delivery - we have discussed Council's progress towards implementing the IT best practice framework for service management processes.
- Remote access approval process - Council has no formal processes for approving and removing remote access to Council's IT systems for staff and contractors. We also note that while some progress has been made, the issues raised in previous years regarding IT have not been fully resolved.

### **Financial accounting issues**

- Donations for tax purposes - with the change in the income tax rules governing the claiming of tax donations, Council needs to review the way it tracks donations claimed to minimise the risk of an invalid claim being made.
- GST on Property purchases - our review of Council property purchases during the year identified that Council had under claimed GST by \$370,000. Council needs to complete a review of property purchases to ensure that other refunds have not been overlooked.
- Valuations - there remain opportunities to improve the processes around Council's valuations, particularly reviewing the valuations and ensuring that all assets in a class are being revalued.

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# Management report

for the financial audit for the year ended 30 June 2008

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Audit New Zealand has completed the financial audit of the Christchurch City Council (Council) for the year ended 30 June 2008. This report summarises our findings from the audit and draws attention to areas where your organisation is doing well or could improve.

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## **1 Audit opinion**

An unqualified opinion was issued on Council's financial statements.

## **2 Our assessment of your management control environment**

We performed a high level review of Council's management control environment. As part of our audit we considered the overall attitude, awareness and actions of Council and management in establishing and maintaining effective management procedures and internal controls.

Our assessment of these areas was based on interviews with key senior management, our knowledge of Council's business, our review of the Internal Audit Programme and progress against this, together with good practice guidance developed within Audit New Zealand.

We have assessed the management control environment as effective. Factors we have taken into account in coming to this conclusion include:

- Council's approach to the development of the 2009/19 Long Term Council Community Plan (LTCCP) appears to be well planned and resourced, including the involvement of the Council. The process of updating and finalising Council's activity management plans is well underway.
- Council's budgeting, monitoring and forecasting procedures are sufficiently robust for us to place reliance on it for the purposes of our audit of the financial statements.

We have identified a number of areas where we believe Council can further enhance its control environment in relation to the systems of internal control and the non-financial information used to manage the business. These matters are detailed later in this report.

## **3 Significant issues arising from the audit**

The following significant issues are raised for your attention.

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### 3.1 Ellerslie International Flower Show

In November 2007, Council purchased the Ellerslie International Flower Show (Ellerslie) from the New Zealand Flower & Garden Show 2004 Limited. Council obtained the property, plant and equipment of the company, as well as its trade marks and other intangible assets. Council also entered into a supply and services agreement with SMC Limited to manage and operate Ellerslie.

The nature of the purchase imposed upon Council certain disclosure requirements under NZ IFRS 3, *Business Combinations* and NZ IAS 36, *Impairment of Assets*. Council management highlighted this issue with us and the Office of the Auditor-General (OAG) at an early stage, to enable frank discussion as to the nature of the transaction and the disclosure required.

Council's disclosure of the purchase included in the audited financial statements was not fully compliant with NZ IFRS 3 and NZ IAS 36. However, Council has clearly outlined its reasoning for not disclosing the purchase price and why it has not fully complied with the relevant standards. The final disclosure of Ellerslie in the financial statements was acceptable to us as it clearly outlined Council's rationale and the matter was not considered material to the financial statements overall.

Council needs to consider the structure and the options available for any future event purchases, otherwise there is a risk the same issue may arise again. We also note that Council will need to consider the carrying value of the goodwill arising from the purchase and whether any impairment is necessary in 2009 after the first event has been held.

### 3.2 New Council Civic Offices

In our 2007 audit arrangements letter we proposed to review Council's arrangements and risk management processes around the selection of sites and construction of new civic offices. That work was deferred as Council reconsidered its options.

In October 2007 Council resolved to develop its new civic offices in partnership with Ngai Tahu Properties, with the resulting decision to purchase the former New Zealand Post building in Hereford Street. That decision was made after an extensive process of establishing and evaluating alternative sites was completed by Vbase on Council's behalf.

As part of the audit this year we obtained an understanding of the ongoing project management processes in place over the project. This was performed via discussions with Council's CEO, Vbase management and a review of the minutes and supporting agenda papers of the Tuam 2 Board. To date, recognising it is early in the project, we can confirm that expected project management disciplines are in place including:

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- comprehensive development management reports – including progress against budget and timeframes,
  - scheduled meetings of the venture parties overseeing the project,
  - established communications protocols around the project, including clarification of when CCC is acting in its capacity as owner and as tenant.

From Council's perspective the project is being overseen by the CEO with assistance from the Corporate Support Manager and an independent consultant from Pro Directions who acts as Council's representative directly reviewing project and its management.

### 3.3 Annual report process

In our 2007 management report we commented on Council's preparation of its annual report and a number of issues that lead to significant delays in completing this. While a number of these issues were one-off factors in 2007 relating to the adoption of NZ IFRS, Council recognised that improvements were necessary and put in place a comprehensive plan for the 2008 year. That plan included:

- Earlier engagement of valuers to perform valuations of Council's Property, Plant and Equipment;
- Regular contact with Council subsidiaries to confirm that they would meet the agreed timetable;
- A Senior Financial Accountant role was established to provide additional accounting support;
- Peer review processes were put in place, to review information before it was provided to audit; and
- Providing more time for financial statement preparation.

Despite the above, there were still a number of issues arising during the 2008 annual report process and below we comment on areas which we consider Council needs to address to improve this process further.

- Improved coordination between Council's Corporate Finance unit and other Council units in the receipt of timely and good quality information, particularly non-financial information;

- Setting of an achievable internal annual report timetable. We found that Council did not meet a number of self-imposed deadlines throughout the annual report process, but did provide sufficient time to complete the project on time at the end.

The process was substantially hindered by poor quality work from the Council's land and building valuers, and in addition Council's new finance team struggled with the preparation of the financial statements.

#### **Management comment**

*We agree, and these issues are being further addressed for the 2008/09 annual report.*

### **3.4 Non-financial performance information**

We reviewed 25 levels of service results reported in Group of Activity (GOA) pages included in the Annual Report. We found that the information recorded was of varying quality. Of the 25 actual results reviewed, we found that 10 of them required amendment because the information was incomplete or inaccurate. Our recommended amendments were subsequently reflected in the GOA pages.

The number of changes are concerning, especially as many of the changes would have easily been identified through a robust review process. It also highlights concerns over the integrity of information on which Council is assessing progress and performance on. While Horizon is a good tool it maybe being undermined by the quality or otherwise of the information being included in the system and by the underlying systems and processes used to capture data around the Council.

Non-financial performance reporting will be a key area of focus in our review of Council's LTCCP, and while Council is developing revised measures to better reflect the desired levels of service, it is equally critical that consideration is giving to the development of robust systems and other relevant sources of information to actually report performance against those measures.

#### **Management comment**

*There are three main ways to ensure tighter management responses on non-financial performance results.*

*The first is to re-introduce interim audits, and these are scheduled to be conducted in February. You may recall that in the past years we commissioned mid-year audits (via PWC) of the systems that provide Horizon with its data. These systems come in a wide variety of*

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*forms - spreadsheets, manual systems, ticket sales etc - and are in a constant state of flux. By reintroducing these mid-year audits we can put focus back on accuracy of these supporting systems.*

*The second step to ensure that the systems supplying data to managers (and therefore Horizon) remains accurate is for managers and their General Managers to see this as a high business priority. We will highlight the issues you have set out at Executive Team level and ensure that staff (especially operational staff with a role in supplying managers with end of year data) are aware of their responsibilities. In many cases it will be possible to reinforce this in their performance plans.*

*Finally, our finance managers have been given a clear priority for the year ahead to drive business improvement. The ability to make them aware of any accuracy issues is therefore crucial. If you would provide feedback on any inaccuracies discovered in your audit, we will provide them directly to the managers and finance managers concerned, along with their General Managers. That way it will be clear which areas need focus.*

## **4 Compliance with legislative requirements**

### **4.1 Legislative compliance systems**

We reviewed the systems and procedures you use to identify and comply with legislative requirements. Council has an active in-house legal team that provides advice and training to business units and helps reduce the risk of a legislative breach.

### **4.2 Breaches of significant legislation**

During our audit we did not identify any breaches of significant legislation that need to be brought to your attention. We have included the following issue for your consideration.

### **4.3 Protected Disclosures Act 2000**

Council has adopted an appropriate Protected Disclosures policy, as required under the Protected Disclosures Act 2000. The policy is included on the Council's intranet for Council staff to review.

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The Protected Disclosures Act 2000 requires all public sector organisations to widely publish their policy and republish it at regular intervals (per section 11(3) of the Act). Although we accept that Council has published its policy widely (by placing it on the intranet), we believe that it has not regularly republished its policy, as required under section 11(3).

Council last republished its policy in December 2000. We believe that to increase compliance with the Protected Disclosures Act 2000, Council management need to be more proactive in advising staff as to the existence of the policy. This could be done by annual updates to staff (i.e. via email to all staff) with a link to the policy. More regular circulation of the policy will increase staff's awareness of both Council's policy and their rights under the Act in regard to making a protected disclosure.

#### **Management comment**

*The Protected Disclosure Policy will be reviewed and republished in the next 6 months. Referrals to the PD officer are at a low level and this perhaps reflects and acceptance of the process. Workshops and training sessions for all staff are programmed for the first half of 2009.*

## **5 Financial accounting issues**

### **5.1 GST on Property purchases**

We reviewed a sample of property transactions and noted that Council had not claimed input tax in relation to certain properties acquired from non-registered persons. We found that Council has under-claimed GST on property purchases by at least \$370,000.

Section 20(3) of the Goods and Services Tax Act 1985 allows an input tax deduction in relation to the supply of second hand goods where:

- the supply is not a taxable supply (i.e. an exempt supply or a supply by a non-registered person); and
- the goods are acquired for the principal purpose of making taxable supplies (e.g. deriving rates income or roading grants).

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Land is regarded as a second hand good. As a result, Council is generally entitled to claim an input tax deduction for  $\frac{1}{9}$ th of the cost of any property purchased, even if the supply is not subject to GST. However, an input tax deduction may not be claimed if the property is purchased for the principal purpose of making exempt supplies (i.e. providing residential accommodation).

In the transactions reviewed, we understand that Council acquired the properties for purposes other than providing residential accommodation. As a result, Council would be entitled to claim a GST refund of approximately \$370,000.

It should be noted that a monthly GST adjustment will be required if there is a dwelling on the land which is rented out prior to removal or sale. However, provided that Council intends to dispose of the dwelling or intends to use the building for purposes other than providing residential accommodation, a second hand goods input tax credit may be claimed for the total cost of the property in the period in which the property is acquired.

If the land or buildings were subsequently sold, Council would also be required to account for GST on the sale proceeds.

To gain assurance that no other property purchases have been incorrectly treated for GST purposes, we recommend as a starting point that a review of property transactions for the past two years be undertaken. Where appropriate, Council should seek a refund of GST.

#### **Management comment**

*We have subsequently reviewed all transactions for the last two years and improved our processes to reduce the chance of further errors.*

## **5.2 Inland Revenue Department tax donations**

The Inland Revenue Department (IRD) has changed the tax laws, with effect from 1 April 2008, which allows an entity to claim donations it has made as tax deductible expenditure up to the value of the entity's taxable income. However, deductions should only be claimed for grants that constitute a gift of money, as set out in section DB 41 of the Income Tax Act 2007. A deduction may therefore not be available if:

- there are any conditions that impose a liability on the grant recipient; or

- there is specific legislation that requires the local authority to make the payment.

The IRD has also stated that an entity will not be able to substitute one donation for another if it is later discovered that the donation claimed is not valid.

Although Council does track who it makes donation claims to, our understanding is that Council does not separately identify which donations made are in accordance with section DB 41. Therefore, we would recommend that Council introduce processes to provide assurance that only valid claims are made.

#### **Management comment**

*Agreed, analysis of the Donations general ledger code will be completed on a quarterly basis to ensure that the Council operate in accordance of section DB 41.*

### **5.3 Land and buildings valuation**

Council's land and buildings were revalued at balance date by Good Earth Matters Consulting. We reviewed the methodology and assumptions used in the valuation to ensure they were performed in accordance with generally accepted accounting practice and valuation standards. In carrying out this work, we identified a number of areas of concern associated with the valuation:

- A number of the asset figures provided by the valuer were clearly incorrect, for example including assets twice.
- The valuation was not performed on a component basis as required by NZ IAS 16.
- The valuer did not initially provide a comprehensive report on the valuation.

The valuers did a poor job and Council are reconsidering their use in the future. However, we also suggest that many of the issues identified in the valuation would have been identified if Council had completed a comprehensive quality review of the information provided.

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**Management comment**

*We agree with audits comments regarding both Good Earth Matters (GEMs) and ourselves. The quality of their work has already been raised with the principal of GEMs and will form part of the ongoing performance meetings and our approach to the renewal of the contract. As regards the Council's performance a change of staff overseeing this area in May along with some inexperience in the processing team caused the normal quality review process to be carried out at too high a level. Staff are now more aware of the requirements.*

*Valuations scheduled for 2008/09 financial year are;*

*Park Improvements*

*Heritage assets*

*Liquid Waste*

*Work has already commenced on sourcing the data required and ensuring the data is provided in an industry standard format, in an effort to avoid a repetition of the delays experienced this year.*

*Note the inclusion of assets not owned by the Council is quite normal in the insurance schedule component of the revaluation where subsidiaries, and other parties assets are covered by our policies.*

**5.4 Completeness of property, plant and equipment valuations**

Our review of the stormwater and artworks valuations identified that the asset information included in the valuation was not complete:

- The stormwater valuation did not include \$9.2m of Council's additions since the previous (2005/06) valuation.
- The artworks valuation only valued artworks at the Christchurch Art Gallery. Other pieces of art held at other Council-owned sites were not included in the valuation.



NZ IAS 16, *Property, plant and equipment*, states that all assets in a class are valued when a revaluation exercise is undertaken. We recommend that Council management introduce processes that provide assurance that all assets in a class are included in the valuation.

#### **Management comment**

*We agree and we are amending our processes to take account of this.*

### **5.5 Parking infringement fees**

In our 2005/06 supplementary report, we outlined our concerns surrounding Council's accounting for parking infringement fees. To briefly summarise, Council does not correctly apply accrual accounting when recognising this type of revenue. Infringement fees are essentially accounted for on a cash basis plus an accrual at balance date. The accrual is based on the proportion of cash collected to the value of infringement fees issued since 1991. There is no recognition of revenue and expenditure for infringement fees which are written-off, waived, or deemed uncollectible during the year. In addition, there is a proportion of the parking infringement tickets issued which is not accounted for.

To date, Council management have not addressed this issue and from an audit perspective the estimated errors involved have not been material. However, we reiterate our recommendation that Council review its accounting for this type of revenue to determine what changes are required so revenue is recognised in accordance with NZ IAS 18, *Revenue*.

The below table sets out our estimate of the potential understatement of Council's surplus due to the incorrect accounting treatment since 2005/06 (note that this is an estimate of the error only):

<b>Year</b>	<b>Understatement of surplus</b>	<b>Understatement of debtors</b>
2005/06	\$1,316,000	\$1,316,000
2006/07	\$615,000	\$615,000
2007/08	\$468,000	\$468,000

### **Management comment**

*In principle we agree and will reassess this year but in our view, any understatement is not material.*

## **5.6 Capitalisation of interest**

Council's accounting policy in relation to capitalised interest is that all interest is expensed with none being capitalised. However, this policy is not followed in the wider group, with Christchurch International Airport Limited and Lyttelton Port Company Limited capitalising interest. In 2007/08, these entities capitalised \$2.3m of interest. This was not corrected in Council's consolidated financial statements, which we accepted on the basis of materiality. However, over time and as those entities revalue their assets including a component of capitalised interest costs the impact of the different accounting policies will increasingly become material. Council needs to make adjustments for the differences in accounting policies in its group financial statements.

For Council itself we understand that the provision in IAS-23 requiring the mandatory capitalisation of interest will be deferred indefinitely for all PBEs. That means Council can capitalise interest if it chooses, but is not forced to.

### **Management comment**

*Council has elected not to capitalise interest and the consolidation check list has been amended accordingly.*

## **6 Internal control issues**

### **6.1 Compliance with Council delegation listing**

During our testing of Council expenditure, we noted examples where the approval of payments was not in accordance with Council's delegation listing.

Council's current delegation policy provides purchase approval amounts for staff up to certain limits. The exceptions we noted were approvals in excess of the individual's delegated limit. This may have occurred because either the total being approved was made up of a number of individual invoices which were all within the delegated limits, or the payments related to contracts or purchases that had been previously approved at a Council or General Manager level.

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Under Council's policy any purchase of goods or services, or contract tender work with a value greater than \$500,000 is required to be approved by the Council. Council's policy also states that 'any two General Managers be authorised to enter into contracts for capital works or for maintenance contracts provided the contract is within the budget approved in the Council's Long-Term Council Community Plan (or an amendment to the plan) or an Annual Plan up to \$5M'. However, while the policy covers the initial entering of the contracts, it is silent on who can approve the substantial payments that may be made after a contract commences. We suggest that the policy be clarified to cover these circumstances.

#### **Management comment**

*The whole of the delegations policy is currently under review and it is our intention to get a recommendation to Council following the adoption of the 09/19 LTCCP.*

### **6.2 Sensitive expenditure policies**

During our review of the Council's sensitive expenditure policies, it was noted that the Council's policies did not cover all areas outlined in the good practice guide issued by the Office of the Auditor-General titled *Controlling Sensitive Expenditure: Guidelines for Public Entities*.

We recommend that policies are produced for the following areas:

- tipping;
- sale of surplus assets to staff;
- farewell and retirement gifts; and
- sponsorship of staff or others.

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**Management comment**

*Other than tipping which we don't believe is an issue, these policies were reviewed over 12 months ago. To date there has been little progress as they are not considered to be as material as other issues which are under review by management in the Corporate Support and HR areas.*

**6.3 Compliance with Council fraud policy**

During the 2007/08 financial year, Council's internal auditors were advised of two instances of alleged fraud involving Council funds. Both instances were investigated and it was found that fraudulent activity involving the theft of Council funds had occurred. In discussions with the internal auditors, we were advised that information relating to only one of these frauds has been provided to the Police.

We note that Council's fraud policy, dated 30 June 2007, states that in circumstances where evidence of fraud is found the matter will be referred to the Police for possible prosecution. We note that Council did not fully comply with its fraud policy, as it has not referred both instances of fraud to the Police with the view for prosecution.

**Management comment**

*The second case of fraud was not reported to the Police as the person accused disputed the allegation, offered several explanations and finally resigned rather than attend a disciplinary meeting over the matter. The matter was not referred to the police as although the evidence pointed to the individual there was an element of doubt, unlike the other incident where the evidence was indisputable. For these reasons it was decided that to comply with policy would be a waste of police time.*

**6.4 P-card transaction limits**

During audit testing we noted several occasions where individual transactions exceeded \$1,125 (including GST). The Council's P-card policy states that card holders are only to make purchases where the item is under \$1,125 per transaction. We also note that Council's internal auditors identified 140 instances where transactions had exceeded the limit during the period.

We recommend that management either amends Council's policy to allow for higher value purchases reflect current practice. Alternatively, P-card holders should be regularly reminded of the use of P-cards and the transaction limits attached.

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**Management comment**

*The policy will be amended to cover the limit for individual transactions.*

**6.5 Review of payroll masterfile changes**

Our review of Council processes indicated two potential areas of weakness in Council's payroll masterfile processing:

- Although Council staff review many payroll changes, this is done on-screen, rather than by the use of a comprehensive payroll masterfile change report. Therefore, there is a risk that a fictitious change could be made to the masterfile which is not identified as it is not reviewed.
- We identified that certain types of masterfile changes are not independently reviewed. These are:
  - changes to an employee's secondary bank account; and
  - termination payments. We were advised that termination payments are reviewed, although there is no evidence of that review retained.

We recommend that the above weaknesses in Council's masterfile review process be corrected to further improve payroll controls.

**Management comment**

*We agree, these two issues will be addressed.*

**6.6 Review of payroll input of timesheets**

Several Council units still prepare physical timesheets that are manually entered by CATS administrators. The data entered by the CATS administrators is not independently reviewed.

We were advised of two compensating controls. Firstly, payroll staff perform a variance check before payment is released to pick up any unreasonable variances. Secondly, input errors are likely to be identified when payslips get handed out by team leaders in each unit. We believe that these controls do not fully minimise the risk of input errors being detected and corrected. The variance

check does not review all differences. Additionally, the second compensating control happens after the payment has been made and would not prevent errors from occurring.

To minimise the risk of input errors occurring, this input should be independently reviewed after it has been entered

**Management comment**

*We agree, Business Unit managers will be asked to put a check process in place for all manual CATS approvals.*

**6.7 Cheque payments**

We note that only one signatory is required to release cheques for payment (as opposed to two signatories for direct credit payments). The cheques, once released, include two system printed signatures even though only one signatory has released the cheques. Effectively Council's process of having two signatories releasing payments is being circumvented by the system processes.

We recommend that Council's processes are either amended to reflect current practice or the system is amended to require that two signatories approve the release of cheque payments.

**Management comment**

*We agree and will review our systems this year.*

**6.8 Metrics and monitoring of Information Technology service delivery**

We note that Council has made progress with the implementation of the ITIL Information Technology best practice framework for service management processes. However, whilst there is reporting of the status of projects within the IM&CT unit, development of metrics for monitoring infrastructure and day-to-day service delivery are still under development. There did not appear to be any automated system monitoring and reporting in place. Without formalised metrics and monitoring, Council may be unable to measure whether it is meeting the organisations needs, and may be unable to identify and respond to shortfalls.

We understand that the new management structure has only recently been appointed within IM&CT and that there are plans to implement more formalised service delivery and monitoring of IT Infrastructure and day-to-day activities of the department. We commend that approach and will monitor progress.

### **Management comment**

*We agree, this approach is scheduled to be in place by the end of November.*

## **6.9 Remote access approval process**

Our review of remote access controls identified that there are no formal procedures for approving and removing remote access to Council systems for staff and contractors. The absence of a formalised process in place for remote access may result in redundant or inappropriate user accounts, and inappropriate use of those accounts. The use of these types of accounts is often not picked up until it is too late, and the ability to hold a person accountable is significantly reduced.

We recommend that Council's processes are amended to require appropriate authorisation. Any changes would need to be included in the user access management procedures to provide assurance that remote access rights are promptly removed when no longer required.

### **Management comment**

*We are in the process of prioritising which processes we improve first. This is expected to be complete by mid February. Once this is done we will have actions and dates to address this recommendation. Note though that the security work within the scope of the LASER project, may well address this issue and as such provide a solution that can be adopted beyond LASER.*

## **7 Reviews on behalf of the Auditor General**

We completed the reviews required by the Auditor-General, as set out in our audit arrangements letter, and cleared them with appropriate members of your management team. Appendix 1 sets out the results of the reviews. There were no issues that need to be brought to your attention.

## **8 Status of issues raised in previous management reports**

Appendix 2 details the current status of each item that was outstanding at the end of the 2006/07 audit. Table A details the outcome of items now cleared. Table B details the current status of issues that have not yet been fully addressed and are not covered elsewhere in this report.

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## 9 Unadjusted misstatements

The financial statements are free from material misstatements, including omissions. However, during the course of the audit, we detected certain immaterial misstatements that are individually and collectively not material to the financial statements. We have discussed these with management who are of the view that they do not need to be adjusted.

We have detailed these items at Appendix 3, together with management's rationale for not making adjustments to the Annual Report.

## 10 Statement of auditor independence

We confirm that, for the audit of the financial statements of Council for the year ended 30 June 2008, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants (NZICA).

We carried out four assignments for Council's subsidiaries. These assignments were a review of interim financial statements and issuing audit certificates pursuant to the Commerce Act (Electricity Information Disclosure Requirements) Notice 2004, the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and the Airport Authorities (Airport Companies Information Disclosure) Regulations 1999. These assignments are compatible with those independence requirements.

Other than the audit and in conducting the audit of the Long Term Council Community Plan, and the assignments detailed above, we have no relationship with or interests in Council or any of its subsidiaries.

### 10.1 Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

### 10.2 Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with Council that is significant to the audit.



We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with Council during or since the end of the financial year.

## Appendix 1: Details of reviews on behalf of the Auditor-General

Issue	Status/findings
Local Authority Exemptions for CCOs	<p>We have been asked to advise the OAG on Council’s use of Section 7 of the Local Government Act 2002. Under section 7 of the LGA 2002, a local authority may exempt a “small” CCO from the accountability regime that applies to CCOs under that Act.</p> <p>Council has exempted a number of non-trading dormant companies during 2007/08. We reported the exempted entities to the OAG.</p>
Annual Report Adoption and Public Release Dates	<p>We have been asked to note the dates that the Council adopts its annual report, and makes the full and summary annual reports available to the public. This information will be forwarded to the Office of the Auditor General.</p> <p>Council has yet to publicly release its full and summary annual report. We will forward these dates to the OAG once that has occurred.</p>

## Appendix 2: Status of issues reported after the 2006/07 audit

### Table A: Issues cleared

Issue	Recommendation	Current status
Tax deductions – donations	Council note the comments made.	The IRD has ceased its proceedings with Council regarding income tax deductions claimed for donations.
Employee probity policy – areas of enhancement	Council consider incorporating the enhancements outlined below into its Employee Probity Policy.	Council has adopted a fraud policy. Our review of the policy found that it has incorporated or otherwise addressed our recommendations included in our 2006/07 management report.
Property, plant and equipment fair value assessments	Council revalue its land and building asset classes as at 30 June 2008.	Council engaged Good Earth Matters Limited to value its land and building asset classes as at 30 June 2008.
Realised revaluation movements on asset disposal	Processes to transfer revaluation reserve balances to retained earnings on the disposal of PPE be developed.	Council staff have correctly transferred revaluation reserve balances on disposal of PPE.
Accounting treatment of deferred tax movements	Deferred tax movements be accounted for in accordance with NZ IAS 12.	Deferred tax movements have been accounted for in accordance with NZ IAS 12.
GST on petroleum tax	Council management treat petroleum tax as a zero-rated supply for GST purposes, and seek a refund of the GST overpaid to the IRD.	Petroleum tax is now treated as a zero-rated supply for GST purposes.
Provision of doubtful debt calculation	Consideration be given to calculating the provision for doubtful debts on a basis consistent with NZ IAS 39.	Council is now calculating the provision on a basis consistent with NZ IAS 39.

Issue	Recommendation	Current status
Non-financial performance measures – health licensing database	The health licensing database be reviewed and the integrity of the information confirmed.	The health licensing database will be replaced with a module created during the laser project. We also note that whilst the new system is created, Council management have put in place new processes which have increased the integrity of the information included in the database.
Valuation of vested asset additions	The procedures used to value vested asset additions be reviewed.	Council now obtains a market valuation for any reserve land obtained through a vesting process.
Capitalisation of property, plant and equipment additions	Corporate Finance review capital additions to confirm that the items capitalised are appropriate and amounts are correct.	Council now undertakes additional review of project costs to confirm that items capitalised are appropriate.

**Table B: Outstanding issues**

Issue	Recommendation	Current status
<b>Procurement system</b>		
Council staff continue to implement the 'procure to pay' system that will address the underlying weaknesses identified by both the internal and external auditors.	Ensure that the proposed strengthening of controls over procurement are implemented.	<p>A number of process changes have been implemented aiming at improving internal control. No system changes have as yet been made but will be prioritised in 09/10 against other organisational initiatives.</p> <p><i>2007/08 The systems part of the Procure to Pay project has been halted and is unlikely to proceed in the short term. A number of changes are being made to purchasing controls to meet the weaknesses identified in the previous audit and these will be completed by June 2009.</i></p>
<b>Status of Canterbury Development Corporation Trust</b>		
The Office of the Auditor-General considers that the CDC is controlled by Council under NZ IAS 27. AS a result the Auditor-General should be the auditor of CDC and Council should consolidate CDC into its group financial statements.	Council note the comments made.	<p>We understand that the OAG are discussing this issue with CDC directly. Council have not consolidated CDC into its group financial statements pending resolution or agreement on this matter. The non-consolidation of CDC is not material to the Council group financial statements.</p> <p><i>2007/08 We are aware of ongoing discussion between the OAG and CDC but have no plans to change our approach.</i></p>

Issue	Recommendation	Current status
<b>Develop a security policy and policy enhancements</b>		
<p>Council has appointed a member of staff to take a lead role for IT security and we commend that action. However we noted that Council does not have a security framework, and supporting policies and procedures in place.</p>	<p>Council prioritise developing and approving a security framework for Council, including the adoption of security policies and procedures.</p>	<p>We understand that Council management have partially addressed our concerns in the 2007/08 financial year, with further improvements occurring in 2008/09.</p> <p><i>2007/08 We are in the process of engaging an external consultant to scope this piece of work</i></p>
<b>Development of organisational Business Continuity Plan and Disaster Recovery Plan</b>		
<p>From discussions with the Systems and Operations Manager, we understand that a full BCP / DRP development process was undertaken approximately 4 years ago. However, the plans have not been updated since. As there has been substantial restructuring during the past four years, these documents will now be out of date.</p>	<p>Council place priority on the development of an organisation-wide Business Continuity Plan, and the updating of the IS Disaster Recovery Plan. Formal testing of the Business Continuity and Disaster Recovery Plans should be carried out</p>	<p>There has been no improvement in the 2007/08 financial year. We note that a review of Business Continuity and IT Disaster Recovery was carried out in November 2006 and this highlighted the need for Council to:</p> <ul style="list-style-type: none"> <li>• formally assign responsibility for Business Continuity;</li> <li>• perform a Business Impact Assessment; and</li> <li>• update and test Business Continuity and Disaster Recovery Plans.</li> </ul> <p><i>Business continuity is the responsibility of the GMs for the relevant operational areas. The requirement for specific plans where they are absent will be assessed when management next conducts an organisation-wide risk assessment. This is expected to be in the 2009 calendar year.</i></p>

Issue	Recommendation	Current status
<b>Offsite storage of backup data</b>		
<p>Council has a formally documented backup strategy in place and has taken measures to ensure data is held offsite in the event of a disaster. We commend management for such attention but note that the offsite locations are within Christchurch and thus potentially susceptible to the same localised disaster that might impact the Council's main premises.</p>	<p>We recommend that Council review its offsite storage location to ensure it meets its needs in the event of a significant localised disaster.</p>	<p>There has been no improvement in the 2007/08 financial year. Council management plan to address this issue when the Security Management Framework is developed.</p> <p><i>There is no work scheduled for this in the 2008/09 financial year.</i></p>
<b>Removal of network access rights</b>		
<p>From discussions with systems and operations staff we understand that while there are strong procedures and reviews carried out around SAP system access, including weekly reconciliations of staff who have left, there is no process in place for removing network logins and system access where people are not recorded in the SAP HR system. For example contractors and temporary staff not paid through HR.</p>	<p>Network and all systems application user access is reviewed on at least an annual basis, and where redundant accounts exist, these are removed or deactivated.</p> <p>A procedure is established for advising IS about contractors and temporary staff leaving so that network access is removed.</p>	<p>There has been no improvement in the 2007/08 financial year. We note that Council is planning to include a control to ensure redundant accounts are identified and removed annually, and to develop a process for removing contractors and temporary staff when the Security Management Framework is developed.</p>

Issue	Recommendation	Current status
<b>Network security</b>		
<p>In our 2004 audit we noted that network security should be improved. Council has taken some steps to enhance its controls around the network. However, we believe that are further steps possible to strengthen network security.</p> <p>We consider that the Council should:</p> <ul style="list-style-type: none"> <li>• Adopt a minimum 8 character password (including alpha and numeric) policy;</li> <li>• Enforce password changes on a monthly cycle (eg. every 30 days);</li> <li>• Implement password protected screensavers, which are automatically invoked after a period of inactivity (between 10 and 15 minutes) and which cannot be changed by users;</li> <li>• Carry out regular (6 monthly) reviews of who has network access.</li> </ul>	<p>Council continue its efforts to enhance network security.</p>	<p>There has been no improvement in the 2007/08 financial year. Council management has prioritised this work, which will be completed as resource allows.</p> <p><i>We agree, and this will be addressed during the 2009 year.</i></p>



Issue	Recommendation	Current status
<b>SAP system security access</b>		
<p>Currently some of the policies for SAP system access are not industry best practice including:</p> <ul style="list-style-type: none"> <li>• There is a minimum of 5 character network passwords, without further complexity such as numbers or special characters;</li> <li>• SAP Password changes are forced every 90 days;</li> <li>• The system locks out users after 90 minutes of inactivity;</li> <li>• Users are able to extend the duration to over 1 day for their passworded screensaver to come on.</li> </ul> <p>Weak application security controls may result in unauthorised access to Council data and systems.</p>	<p>We recommend that Council strengthen its SAP system security by:</p> <ul style="list-style-type: none"> <li>• Adopting a minimum 8 character password (including alpha and numeric) policy;</li> <li>• Enforce password changes on a monthly cycle (e.g. every 30 days);</li> <li>• Implementing password protected screensavers, which are automatically invoked after a period of inactivity (between 10 and 15 minutes), and which are unable to be changed by the user.</li> </ul>	<p>We noted that Council management have accepted the risks that the current settings represent and do not propose to make any changes to the access controls in place. Additionally, the Internal Audit programme for 2008/09 will include a review of SAP security.</p>

Issue	Recommendation	Current status
<b>Schedule 10, Clause 15 disclosures</b>		
<p>Council improve its disclosures in relation to the following clauses of schedule 10 of the Local Government Act 2002:</p> <ul style="list-style-type: none"> <li>• report the results of any measurement undertaken during the year of progress towards the achievement of community outcomes; and</li> <li>• describe any identified effects that any activity within the groups of activities has had on the social, economic, environmental, or cultural well-being of the community.</li> </ul>	<p>Council review how it can best meet its reporting obligations under the Local Government Act 2002</p>	<p>Council amended its disclosure to more clearly identify the effects than an activity has on the social, economic, environmental and cultural well-beings.</p> <p>Council has not reported the results of any measurement undertaken towards the achievement of community outcomes. However, we understand that a comprehensive review is planned for 2008/09.</p>
<b>Journals</b>		
<p>In our 2006 supplementary report, we recommended that a review and approval process for journals be implemented, as there was currently no formal process in place. Although Council management implemented this policy, it is not being applied for all journals processed.</p> <p>Additionally, appropriate supporting documentation is not provided for all journals processed. We expect supporting documentation to be provided to allow for an effective review process.</p>	<ul style="list-style-type: none"> <li>• Council management continue to emphasise the need for independent authorisation of journal entries.</li> <li>• Council management implement procedures such that all journals processed have appropriate supporting documentation.</li> </ul>	<p>Our discussions with Council management found that some journal entries are still not being independently authorised.</p> <p><i>This will be addressed, possibly through SAP workflow.</i></p>

### Appendix 3: Unadjusted misstatements - Parent

Current year misstatements (Including explanation why not corrected)	Assets	Liabilities	Equity	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Turners and Growers non-current receivable has not been discounted to reflect that it will not be received until a future period.	(904)			904
Stormwater additions since 2005 were not valued at 30 June 2008 (amount reflects the <b>estimated</b> further increase in value not recognised in the financial statements).	1,304		(1,304)	
Car parking fines are understated as they are accounted for on a cash basis and do not therefore incorporate an accrual for the total amount expected to be received.	468			(468)
LTNZ supplementary claim not accrued	320			(320)
Legal expenses and costs not accrued		(519)		519
Carbon credits – foreign exchange calculation incorrect	371	(484)		113
2007/08 capital expenditure not processed into the financial statements	448	(448)		
<b>Total known misstatements</b>	<b>2,007</b>	<b>(1,451)</b>	<b>(1,304)</b>	<b>748</b>

## Unadjusted misstatements – Group

Current year misstatements (Including explanation why not corrected)	Assets	Liabilities	Equity	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Parent misstatements	2,007	(1,451)	(1,304)	748
Estimated impact of non-consolidation of Canterbury Development Corporation (based on 2007 numbers)	2,420	(1,484)	(936)	
CCHL subsidiaries capitalise interest whereas Council's accounting policy is to not capitalise interest.	(2,286)			2,286
<b>Total known misstatements</b>	<b>2,141</b>	<b>(2,935)</b>	<b>(2,240)</b>	<b>3,034</b>